NSC BRIEFING   17 June 1959

LATIN AMERICAN FINANCE

I. On 10 June, Brazilian congressmen leaked to press news that Brazil had made "emergency" request for $300 million loan from US. Outcome being watched closely in Latin America as test of US policy.

II. On 9 June, Brazil broke off, at least temporarily, talks with International Monetary Fund about economic stabilization program similar to one adopted by Argentina in January.

A. President Kubitschek had agreed to most aspects of recommended program, but he balked at IMF's conditions that import subsidies on wheat and petroleum be removed.

1. He feared removal would raise cost of living to politically-dangerous level.

2. Riots occurred last fall when these subsidies were reduced.

B. Kubitschek has been following Frondizi's problems with stabilization in Argentina closely, and Kubitschek says his political situation is more ticklish than Frondizi's.

III. Brazil has asked for direct loan from US, putting issue as question of confidence between two countries.

A. Brazil owes about $350 million due this year on outstanding loans from US, IBRD, IMF, private US banks, and European creditor

B. Dollar reserves first week of June down to $3.6 million. Coffee sales, which provide about 60 percent country's foreign exchange, will hit seasonal low this month and next. Coffee prices dropped 22 percent last year, another 12 percent so far this year.

C. Kubitschek government dickering with ESSO, Gulf, and Shell for 18-month credit on oil imports which cost about $250 million last year.

   1. Government also arranging to sell oil from new strike this month to US companies. Should bring in about $70 million annually.

IV. Kubitschek evidently does not wish to break completely with IMF, and he has tentatively agreed to a US proposal that debt repayments be rescheduled in place of new loan.

   A. However, due to what our embassy in Rio de Janeiro calls "highly charged political atmosphere," Kubitschek refuses to let this be known fearing public may charge him with bowing to US pressure.

   B. Chief Brazilian negotiator says some face-saving formula must be worked out. ~~Indicates~~ Government has stood off extreme nationalists so far, but ~~that~~ he says "crisis" might push Kubitschek into "Nasirism."

   C. Brazil considering Soviet offer to buy $100 million worth of coffee under 3-year barter deal.

      1. Brazilians are tempted but suspicious. Amount--650,000 bags annually--is almost 10 times present Soviet consumption. Brazil wants guarantee against re-sale.

V. Other Latin Americans--especially opposition elements in Argentina and Chile--have hailed Brazil's break with IMF. President of Chile and Peruvian prime ministers have privately charged IMF with "rigidity."

VI. In Argentina, where Frondizi under severe pressure as result his sincere efforts carry out stabilization program, Minister of Economy fears Brazilian break with IMF may wreck Argentine program.

A. Opposition citing Brazil as "country determined to resist intervention."

B. Communists and Peronistas continue strike agitation despite state of siege.

C. Military restive over labor defiance, and disgruntled officers plotting to overthrow Frondizi.

1. They have no positive program; ousting of Frondizi would not serve US interests.

D. Bombings and violence continue.

E. Peron has called for massive resistance to economic stabilization

F. Cost of living has jumped 65 percent since January when program put into effect; another 20 percent increase likely next few months.

G. As part of program, government planning to fire about 300,000 employees.

H. Pressures on Frondizi likely to intensify, and other Latin Americans are watching his troubles with economic stabilization as test case of US economic policies.